



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 3/2/2007

GAIN Report Number: IN7018

India

Agricultural Situation

Weekly Highlights & Hot Bites, #9

2007

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Report Highlights:

Government defends role of commodity exchanges..., *...wheat, rice futures trade banned*, *Futures trading ban may reduce wheat prices*, *Government appoints ICRIER for retail study*, *High realty rentals putting brakes on retail dreams*, *Australia to help India progress in Doha round trade talks*, *Luxembourg sees key role for India in WTO talks*, *India, France to set up panel on food processing*, *Duty cut won't impact sunflower oil market*, *Keep basmati rice free from GM crop commerce industry*, *Scotch brewers want WTO action against India.*

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
New Delhi [IN1]
[IN]

Welcome to Hot Bites from India, a weekly summary of issues of interest to the U. S. agricultural community. The report includes information that has been garnered during travel within India, reported in the local media, or offered by host country officials and agricultural analysts. Press articles are included and summarized in this report. Significant issues will be expanded upon in subsequent reports from this office. Minor grammatical changes have been made for clarification.

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GOVERNMENT DEFENDS ROLE OF COMMODITY EXCHANGES ...

At a time when political opinion against futures trading is building up for causing alleged inflationary pressures, the government's pre-Budget Economic Survey puts forth a robust defense of the role of commodity exchanges. While noting that prices of a commodity in the futures market might "at times" show some aberrations reacting to the element of speculation and bandwagon effect inherent in any market, they, however, "quickly revert to the long-run equilibrium price, as information flows in, reflecting fundamentals of the respective commodity." The Survey points out that speculators provide liquidity to futures markets and may "sometimes benefit from price movements," but do not have a "systematic causal influence on price." (Source: Business Line, 02/28/07)

Post Comment: The government's pre-budget Economic Survey is available at: <http://indiabudget.nic.in/es2006-07/esmain.htm>

... WHEAT, RICE FUTURES TRADE BANNED

India, world's second largest producer of wheat and rice, banned futures trading in the two commodities to curb the fastest inflation in two years. Trading will stop once existing contracts expire on the nation's future exchanges. "Mounting political pressure to combat inflation seems to have promoted the government to take this drastic step," a brokerage firm official said. "Trading volumes in other agriculture commodities will also dry up," he said. The National Commodities and Derivatives Exchange Ltd. accounts for 95 percent of all wheat futures traded in India. However, wheat makes up just one percent of the bourse's daily turnover, said Mr. P.H. Ravikumar, the Managing Director. (Source: Business Standard, 03/01/07)

Post Comment: The announcement came as an addendum to the Finance Minister's Budget speech (<http://indiabudget.nic.in/ub2007-08/speech.htm>) and is available at: <http://www.pib.nic.in/release/release.asp?relid=25234>

FUTURES TRADING BAN MAY REDUCE WHEAT PRICES

The ban on new futures trading contracts for wheat and rice announced by the Finance Minister has already resulted in wheat prices falling. Analysts say as *badla* operators, who used to provide finance against grain stocks, withdraw from the futures market, wheat hoarding (speculative stocking) will fall. Further with the ban, arbitrage between spot and future trading will stop taking away demand. Arrival of the new wheat crop in coming months will also ease out pricing pressure on wheat. As a result of the ban on futures trading in wheat, large corporates and hedgers will not come to commodity markets to hedge their position and this will affect the volume of commodity markets. However, the ban would not make any impact on rice prices as there is hardly any trading in rice contracts on the commodity futures bourses. (Source: Times of India, 03/02/07)

GOVERNMENT APPOINTS ICRIER FOR RETAIL STUDY

Following the ruling Congress Party President Sonia Gandhi's demand to assess the impact of multinational retailers on domestic industry, the Commerce Ministry has commissioned the Indian Council for Research International Economic Relations (ICRIER) to undertake a study in this regard. The study will determine the impact of large retailers, both local and global, from the organized retail sector on the unorganized retailers and other sections of the society including farmers, manufacturers, etc. The study is expected to be completed in the next 3 to 4 months. Until then, all plans to allow foreign direct investment in speciality retail sector has been put on hold. (Source: Business Standard, 2/28/07)

HIGH REALTY RENTALS PUTTING BRAKES ON RETAIL DREAMS

High rentals in malls are beginning to threaten the viability of retailers. With the rentals rising to Rs. 170-250 per square feet, an average store of 1200 square feet runs a rental bill of Rs. 250,000 to 300,000. Most retailers in malls are finding it difficult to break even as the sales do not justify these rentals. A recent study by a leading consultancy firm indicates that some retailers have already closed shop due to the non-viability of the business at current high costs. (Source: Financial Express, 02/27/07)

AUSTRALIA TO HELP INDIA PROGRESS IN DOHA ROUND TRADE TALKS

Australian Trade Minister, Mr. Warren Truss, said that he will take up with Indian Commerce Minister Nath the need to achieve progress on the Doha Round of trade talks. He said he would express Australia's willingness to work with India to try and broker solutions that might be acceptable to other trading countries. Mr. Truss, who is leading an Australian business delegation to India, felt that the talks on the Doha round of the WTO had got stuck because none of the parties concerned had moved sufficiently enough to secure a high quality agreement. He said there was a tendency for one country to wait for somebody else to make the first move and that was why Australia had put on the table a proposal referred to as five-plus-five. (Source: Business Line, 02/28/07)

LUXEMBOURG SEES KEY ROLE FOR INDIA IN WTO TALKS

Luxembourg believes that India, as a member of the G-20 nations has a substantial role to play in taking the stalled WTO Doha round negotiations forward. Luxembourg's Deputy Prime Minister, Mr. Jean Asselborn, at the end of his four day India visit, said if much progress was not made in 2007, it would become more difficult in 2008 as the U.S. would have a presidential election next year and the EU too would be busy with a review of its budget. He said the EU was also keen to take forward the idea of a free trade agreement with India, as it would benefit both countries. He said India had huge challenges in tackling poverty and improving its agriculture sector. (Source: Business Line, 02/25/07)

INDIA, FRANCE TO SET UP PANEL ON FOOD PROCESSING

France and India have jointly set up a working group to draw up a strategy for partnership in food processing. After an interactive session on 'Indo-French collaboration in agro and food processing sector,' organized by the Indian Chamber of Commerce, the French Minister for Agro and Agricultural Processing Industries, Mr. Nicolas Froissier, said the working group would have representatives from the bureaucracy, industry, and chambers of commerce. Creation of food parks, cold chain, encouraging strategic partnership and technical transfer, and greater information sharing will be part of the agenda. (Source: Business Line, 03/21/07)

DUTY CUT WON'T IMPACT SUNFLOWER OIL MARKET

The 15 percent duty cut on crude and refined sunflower oil is unlikely to have a major impact on imports. The sunflower oil importers in India currently utilize only 66 percent of the TRQ on crude sunflower oil, despite having a lower preferential duty structure of 50 percent compared to the custom duty of 65 percent. The reduced customs duty has now been brought at par with the duty under the TRQ, hence the duty cut will not have a substantial effect on sunflower oil imports. Edible oil manufacturers are expected to benefit from the budget decisions on the additional duty exemption and the withdrawal of excise on food processing. (Source: Business Standard, 03/02/07)

Post Comment: In this year's government budget, edible grade vegetable oils have been exempted from the 4% special additional duty. For official notification please see: <http://www.cbec.gov.in/cae/customs/cs-act/notifications/notfns-2k7/cs23-2k7.pdf>

KEEP BASMATI RICE FREE FROM GM CROP TRIALS: COMMERCE MINISTRY

The Commerce Ministry has decided to intervene and ask the Genetic Engineering Approval Committee (GEAC) not to approve field trials of genetically modified (GM) crops in Basmati rice growing states of Punjab, Haryana, Uttarakhand and Western Uttar Pradesh. The consensus emerged in a meeting of stakeholders convened by the Commerce Ministry. It was also decided to seek non-approval of field trials of GM rice crops in the 60 agri export zones (AEZ). Exporters expressed their concern to keep all AEZs safe from any possible contamination from GM field trials that may potentially affect country's rice export prospects. (Source: Financial Express, 02/24/07)

SCOTCH BREWERS WANT WTO ACTION AGAINST INDIA

The Scottish Whisky Association (SWA) has urged the European Union to launch the WTO dispute settlement proceedings against India at the earliest, following the 2007 budget's alleged failure to reform the discriminatory treatment of imported spirits. The dispute has been going on for some time with the SWA insisting that imported spirits was being subjected to a high and discriminatory tariff and tax burden of up to 550 percent. They said that the 2007 budget was the last opportunity for India to reform the tax system. (Source: Hindustan Times, 03/02/07)

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IN7017	India: Agricultural Situation: The Indian Budget 2007/08 – Agricultural Highlights	03/01/07

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